

## Message Text

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PAGE 01 BERN 04676 161041Z

11

ACTION TRSE-00

INFO OCT-01 AF-04 EUR-12 EA-06 ISO-00 AID-05 CIAE-00

COME-00 EB-07 FRB-01 INR-05 NSAE-00 RSC-01 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 L-02 H-01 PRS-01 PA-01 USIA-06

ABF-01 /090 W

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R 160951Z DEC 74

FM AMEMBASSY BERN

TO SECSTATE WASHDC 9977

INFO AMEMBASSY BONN

AMEMBASSY PRETORIA

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

USMISSION OECD PARIS

AMCONSUL ZURICH

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DEPARTMENT ALSO PASS TREASURY AND FRB

FRANKFURT ALSO FOR GAO

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: GOLD MARKET

REF: A) STATE 265855; B) LONDON 15906; C) STATE 260499

1. SUMMARY. WE HAD OPORTUNITY HEAR VIEWS OF SENIOR GOLD  
TRADERS IN THREE MAJOR SWISS BANKS DECEMBER 9-10 WHILE  
ACCOMPANYING GAO OFFICIALS LA MOTTE AND BREW. ALL WITH WHOM  
WE TALKED (AND OTHERS IN RECENT DAYS) HAD DOUBTS ABOUT EFFECT  
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PAGE 02 BERN 04676 161041Z

OF U.S. DEMAND ON WORLD GOLD PRICES, BUT FELT STRONGLY THAT

SIX-MONTH DELAY IN PRIVATE GOLD OWNERSHIP BY AMERICANS WOULD PREVENT POTENTIAL TURBULANCE IN FINANCIAL MARKETS, SLOW MOVEMENT OUT OF MORE PRODUCTIVE INVESTMENTS, AND ALLOW INTERNATIONAL COMMUNITY TO CONCENTRATE ITS ATTENTION ON SUCH BASIC AND MORE IMPORTANT ISSUES AS MANAGING OF PETROFUND FLOWS AND STABILIZING ECONOMIC TRENDS IN MAJOR INDUSTRIAL COUNTRIES. END SUMMARY.

2. REPS OF THREE BANKS (UNION BANK(UBS), SWISS BANK CORP., AND SWISS CREDIT BANK) WERE PARTICULARLY CONCERNED AT PROSPECTIVE TRADING IN GOLD FUTURES NOTING WIDE GOLD PRICE FLUCTUATIONS THAT ARE LIKELY IN FUTURE, POTENTIAL LOSSES FROM SPECULATIVE MARKET ACTIVITY FOR THOSE UNFAMILIAR WITH GOLD MARKET, AND OTHER DIFFERENCES FROM SUCH COMMODITIES TRADED ON EXCHANGES AS PORK BELLIES, SOYBEANS, SUGAR AND SILVER. MOST EXPECT AN INITIAL BRIEF FLURRY OF DEMAND FROM U.S. AFTER JANUARY 1 BUT EXPECT IT WILL CALM FAIRLY QUICKLY. THEY THINK MUCH OF INITIAL U.S. DEMAND HAS ALREADY BEEN ANTICIPATED ALTHOUGH THEY REALLY CANNOT GAUGE STRENGTH OF DEMAND LIKELY FROM SMALL U.S. INVESTOR. SWISS BANKS CLEARLY SEE ONGOING ROLE FOR THEMSELVES IN INTERNATIONAL GOLD MARKET ALTHOUGH THEY RECOGNIZE THAT GIVEN SIZE OF UNITED STATES MARKET PRICE WILL IN FUTURE LARGELY BE ESTABLISHED BY U.S. DEMAND. SWISS BANKS HAVE MADE NO DECISIONS ON HOW TO CHANGE THEIR GOLD OPERATIONS FOR THE U.S. SITUATION BUT CLEARLY DO NOT INTEND TO BE INVOLVED IN FUTURES OR DISTRIBUTION.

3. WITH REGARD JANUARY 6 AUCTION MOST BANKERS AGREED THAT ANNOUNCEMENT HAD BEEN USEFUL REMINDER TO MARKET OF VARIOUS FORCES WHICH COULD SUBSTANTIALLY AFFECT PRICE. THEY WERE STILL PONDERING WHETHER USG WAS TRYING TO ESTABLISH A PARTICULAR PRICE AND IF SO AT PRESENT OR EVEN HIGHER LEVEL. SOME WERE SKEPTICAL WHETHER JANUARY 6 SALE WOULD, IN FACT, ACTUALLY TAKE PLACE SINCE THEY WONDERED WHAT WOULD HAPPEN, FOR EXAMPLE, IF SINGLE LARGE INVESTOR REPRESENTING ARAB OIL PRODUCER WERE TO MAKE HIGH BID. WOULD USG AND AMERICAN PUBLIC BE WILLING TO DISPOSE OF PART OF OFFICIAL GOLD HOLDINGS? ALL THREE SWISS BANKS PLAN TO BID BUT WE HAVE IMPRESSION THEY WILL PROBABLY BID BELOW CURRENT MARKET PRICE AND ONE SOURCE SAID HE WOULD NOT BE SURPRISED IF GSA REJECTED LIMITED OFFICIAL USE

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PAGE 03 BERN 04676 161041Z

ALL OFFERS AS NOT BEING HIGH ENOUGH.

4. UBS OFFICIAL WHO ACTS AS CONTACT MAN FOR ZURICH GOLD POOL WITH SOUTH AFRICAN PRODUCERS AND WHO HAD JUST RETURNED FROM SOUTH AFRICA EXPRESSED FOLLOWING VIEWS RE LIKELY PRODUCER COUNTRY BEHAVIOR; A) SOUTH AFRICA WILL NOT SELL GOLD FORWARD AND WILL NOT TRY MANIPULATE MARKET. USING FIGURE OF 750 TONS PRODUCTION IN 1974, HE ANTICIPATED SALES IN SAME RANGE

IN 1975 AND THOUGHT PATTERN OF 80:20 SPLIT BETWEEN ZURICH AND LONDON LIKELY CONTINUE. HE ALSO SEEMED TO EXPECT CONTINUED SALES FROM RESERVES WHEN BALANCE OF PAYMENTS DEFICITS EXPERIENCED. B) USSR HAD SIGNIFICANTLY INCREASED PRODUCTION IN RECENT YEARS FROM 250/300 TONS PER YEAR TO CURRENT ESTIMATED 400/500 TONS. HE THOUGHT PRESENT SOPHISTICATED SOVIET GOLD STRATEGY WAS PRICE-RESPONSIVE AND THAT THEY WOULD CONTINUE SELL IF THEY FELT PRICE WAS RIGHT. HE DOUBTED THAT USSR HAD STRONG IMMEDIATE FOREIGN EXCHANGE REQUIREMENTS AND COULD AFFORD WAIT IF PRICE CONSIDERED TOO LOW. (REP OF SWISS BANK CORPORATION DIFFERED IN THIS VIEW SAYING HE ANTICIPATED CONTINUING STABLE USSR SALES AT HIGH LEVEL BECAUSE THEY DID NEED FOREIGN EXCHANGE.) C) ALL AGREED THAT AT LEAST UNTIL ABOUT 1978/79 THESE TWO SUPPLIERS WILL HAVE BULK OF BUSINESS.

5. UBS REP MENTIONED QUANTITY OF 150,000 KRUEGERRANDS PER WEEK WHICH BEING MADE AVAILABLE BY SOUTH AFRICA TO THREE DESIGNATED DISTRIBUTORS IN U.S. (REPUBLIC NATIONAL BANK AND TWO OTHER DEALERS).

6. UBS REP ALSO NOTED THAT SALES TO SOME TRADITIONAL MARKETS SUCH AS INDIA WERE QUIET WHILE SOME GOLD REFLOW INTO WORK MARKET NOTED FROM OVERSEAS CHINESE HOLDERS IN SOUTHEAST ASIA.

7. WE WERE ALSO REMINDED THAT PRICE OF GOLD DEPENDS HEAVILY ON CURRENT VALUE OF DOLLAR SINCE LATTER SERVES AS WIDELY-ACCEPTED EXPRESSION OF GOLD'S VALUE. IN THIS CONNECTION, THEY THOUGHT CURRENT DOLLAR WEAKNESS NOT RELATED TO OPENING OF U.S. GOLD SALES OR AUCTION, BUT RATHER TO RELUCTANCE OF MANY HOLD DOLLARS AT THIS TIME FOR VARIOUS REASONS PLUS END-OF-YEAR BANKING OPERATIONS WHICH HAVE INCREASED DEMAND LIMITED OFFICIAL USE

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PAGE 04 BERN 04676 161041Z

FOR SWISS FRANCS AND SOME OTHER EUROPEAN CURRENCIES AND PUSHED UP INTEREST RATES.  
DAVIS

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## Message Attributes

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